COUNTY OF LOS ANGELES
DEPARTMENT OF AUDITOR-CONTROLLER

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WENDY L. WATANABE
AUDITOR-CONTROLLER

January 3, 2014

TO: Supervisor Don Knabe, Chairman
Supervisor Gloria Molina
Supervisor Mark Ridley-Thomas
Supervisor Zev Yaroslavsky
Supervisor Michael D. Antonovich

FROM: Wendy L. Watanabe Wendy L. Watanabe
Auditor-Controller

SUBJECT: **DEPARTMENT OF PUBLIC SOCIAL SERVICES – REVIEW OF TRUST FUNDS, REVOLVING FUNDS, COMMITMENTS, AND ACCOUNTS PAYABLE**

As part of our ongoing responsibility to ensure the County's resources are safeguarded and that departments comply with County fiscal policies and procedures, we are reviewing County departments' use of trust funds, revolving funds, commitment encumbrances (commitments), and accounts payable. Our reviews are intended to ensure departments are controlling and using trust funds, revolving funds, commitments, and payables in compliance with the County Fiscal Manual (CFM) and other requirements.

We have completed a review of the Department of Public Social Services (DPSS). We conducted our testwork by interviewing DPSS personnel, examining trust fund records and procedures, reviewing controls over revolving funds, and analyzing commitments and accounts payable during Fiscal Years 2009-10 and 2010-11.

Summary of Findings

DPSS generally uses its trust funds for appropriate purposes. However, DPSS management needs to provide appropriate oversight to ensure all trust fund monies are accounted for and balances are appropriate. DPSS management also needs to ensure the Department complies with County requirements for trust funds, revolving funds, commitments, and accounts payable. The following are examples of areas for improvement:

- DPSS needs to ensure that the detailed subsidiary records for all trust funds are reconciled to the County's official accounting system (eCAPS). Three (60%) of the five trust funds reviewed had significant variances between DPSS' records and eCAPS. For example, for one trust fund we noted a $1.3 million (6%) variance between DPSS' records and the eCAPS balance of $21.7 million. However, because DPSS had not reconciled the trust fund, DPSS was unable to determine if there was an actual variance, or if there were reconciling items that would account for the difference.

  DPSS' attached response indicates that the Department consolidated its fiscal operations, implemented controls to strengthen trust fund reconciliations, and established a special taskforce to validate and resolve the variances we noted.

- DPSS needs to resolve the backlog of collections that have not been credited to participant accounts in the CalFresh (food stamp) and California Work Opportunity and Responsibility to Kids (CalWORKs) overpayment recovery trust funds, and determine if there are any shortages or overages. At the time of our review, DPSS had 45,000 food stamp and 18,000 CalWORKs overpayment collections that had not been credited to participant accounts.

  DPSS' attached response indicates that, as of July 31, 2013, the Department had cleared 69% of the backlog of food stamp and CalWORKs overpayment collection records that existed at the time of our review. In addition, the Department is implementing additional procedures and controls to post overpayment collections to participants' accounts timely.

- DPSS should work with other County departments, as needed, to determine the appropriate disposition of the $6.4 million balance in the Child Support Collection Overpayment/Repayment Trust Account. Most of the balance was deposited prior to 1998, and DPSS has indicated that they do not have historical records to link monies in the trust fund with the respective client cases to which it belongs. While DPSS has attempted to identify an appropriate disposition for the monies, the issue has not yet been resolved.

  DPSS' attached response indicates that the Department engaged County Counsel and the Chief Executive Office for guidance on the appropriate disposition of these funds, and will continue to work with them to reach a final resolution.

- DPSS should ensure that commitments and accounts payable are accurate, and cancel or reduce unneeded commitments and payables. We reviewed 15 commitments, totaling $355,000, and noted that seven (47%), totaling $178,000, should have been cancelled. We also reviewed 15 payments charged against other commitments, and noted that two (13%), totaling $47,000, were for goods or services that DPSS received before the end of the prior fiscal year. DPSS should have established accounts payable, not commitments, for these items.

DPSS' attached response indicates that Accounts Payable staff have been instructed on the proper procedures for establishing and cancelling commitments and accounts payable, in accordance with the CFM and the Auditor-Controller's year-end closing instructions.

- DPSS management should ensure that supporting documentation for petty cash expenditures is marked "paid" to prevent reuse. Eight (57%) of the 14 petty cash expenditure receipts reviewed were not marked "paid".

  DPSS' attached response indicates that the Department implemented procedures to ensure that all petty cash expenditure documents are stamped "paid" as soon as they are processed.

- DPSS management should restrict access to cash to as few authorized individuals as possible, and ensure staff reconcile lists of checks received through the mail to deposits. At the three district offices we visited, we noted one office where cashiers had unsupervised access to a safe containing cash, and one office where staff did not reconcile checks received through the mail to deposits.

  DPSS' attached response indicates that the Department has reinforced procedures regarding security over cash and maintaining restricted access to the cashiering operation, and has included the procedures in the annual cashiering training. DPSS also verifies compliance with the procedures during surprise cash counts conducted by the Department's internal auditors.

Details of these and other findings and recommendations are included in the attached report (Attachment I).

Review of Report

We discussed the results of our review with DPSS management during and after our review. DPSS indicates in their attached response (Attachment II) that the Department agrees with our findings and recommendations, and has already implemented many of the recommendations in our report.

We thank DPSS management and staff for their cooperation and assistance during our review. Please call me if you have any questions, or your staff may contact Robert Smythe at (213) 253-0101.

WLW:AB:RS:TK

Attachments

c: William T Fujioka, Chief Executive Officer
Sheryl L. Spiller, Director, Department of Public Social Services
Audit Committee
Public Information Office

DEPARTMENT OF PUBLIC SOCIAL SERVICES
REVIEW OF TRUST FUNDS, REVOLVING FUNDS, COMMITMENTS, AND ACCOUNTS PAYABLE

Background

The Department of Public Social Services' (DPSS or Department) Fiscal Operations Division is responsible for the Department's accounting functions, and oversees trust funds, revolving funds, accounts payable, and commitment encumbrances (commitments).

As of June 30, 2012, DPSS had $22.6 million in 19 trust funds, and $85,000 in three revolving funds. In addition, DPSS had cash collections of $9 million in Fiscal Year (FY) 2011-12. At the end of FY 2011-12, DPSS established $4.9 million in commitments to pay for goods and services that had been ordered or contracted for, but had not been received by the end of the fiscal year. DPSS also had $22 million in accounts payable for goods and services that had been received, but had not been paid for, by the end of the fiscal year.

Scope

We reviewed DPSS' compliance with County Fiscal Manual (CFM) requirements in FYs 2009-10 and 2010-11 for controls over its trust funds, revolving funds, commitments, and accounts payable. Our review included interviews with DPSS management and staff, and an examination of DPSS' fiscal and accounting records.

COMMENTS AND RECOMMENDATIONS

Trust Funds

As noted earlier, DPSS had 19 trust funds with a total cash balance of $22.6 million as of June 30, 2012. DPSS uses its trust funds primarily to temporarily hold money recovered from participants who received overpayments of program benefits, until DPSS can determine the proper recipient of the monies. Two of the trust funds are used to track welfare advances or receivables from the State, and had non-cash balances totaling $527 million as of June 30, 2012. Because welfare benefits are paid out of the County's general fund, cash is kept in the general fund, and the associated advances and receivables are tracked in trust funds that do not contain cash (i.e., "non-cash" trust funds).

We reviewed five of DPSS' trust funds. Two were non-cash trust funds, and the other three had a total cash balance of $14 million as of June 30, 2012. We also performed a partial review of a sixth trust fund after DPSS informed us that it had an old unaccounted for balance of $6.4 million.

Trust Fund Management/Oversight

Trust funds consist of money the County holds as a trustee, custodian, or agent for other parties or jurisdictions, or money that is held in trust until it is earned and transferred to revenue. As a trustee/agent of the trust funds, the County is required to maintain proper accounting, reporting, and security over the funds, and ensure the funds are only used as intended. Departments should maintain detailed subsidiary records of trust fund balances and activity, and maintain sufficient supporting documentation to identify to whom the trust money belongs. Departments should ensure the accuracy of trust fund records by periodically reconciling their detailed subsidiary ledgers to the trust fund balances in the County's official electronic Countywide Accounting and Purchasing System (eCAPS) accounting records on a monthly or quarterly basis.

Our review indicates that DPSS was generally using its trust funds for their intended purposes. We reviewed a sample of transactions from five trust funds, and noted the transactions appeared appropriate and had adequate supporting documentation. However, DPSS management needs to provide appropriate oversight to ensure all trust fund monies are accounted for and that the fund balances are appropriate. Three (60%) of the five trust funds reviewed had unreconciled variances between DPSS' detailed subsidiary records and the trust fund balances in eCAPS. For the other two trust funds, DPSS' reconciliations did not indicate what the total trust fund balances should be. For the sixth trust fund that we partially reviewed, DPSS did not have detailed subsidiary records supporting the trust fund balance. We noted during our review that DPSS had not been properly reconciling the trust funds, which likely caused the unreconciled variances and unaccounted balances.

Food Stamp and CalWORKs Overpayment Recoveries Trust Funds

DPSS uses two trust funds to temporarily account for CalFresh (food stamp) and California Work Opportunity and Responsibility to Kids (CalWORKs) overpayment collections. When a participant returns an overpayment, DPSS credits the participant's account in the Los Angeles Eligibility, Automated Determination, Evaluation and Reporting System (LEADER), and deposits the collection into the trust fund(s). Each quarter, DPSS reports overpayment collections to the State. The State recovers food stamp overpayments by reducing the payments it makes to DPSS for future food stamp administration costs. DPSS then transfers an amount equivalent to the State's recovery amount from the trust fund to the County's general fund. DPSS reimburses the State for CalWORKs overpayment collections by reducing its claims to the State for the program, then transfers an equivalent amount to the County's general fund.

We noted that DPSS was not reconciling the detailed subsidiary records in LEADER to eCAPS. As a result, DPSS was not ensuring that the balance in eCAPS was accurate, and that all funds were properly accounted for.

We compared the eCAPS trust fund balances as of March 31, 2009 to LEADER reports, and noted variances of $1.3 million in the food stamp overpayment trust fund and $35,000 in the CalWORKs overpayment trust fund. DPSS indicated that the variances were likely due to a variety of factors, such as unreconciled variances dating from when the food stamp and CalWORKs overpayment collection data was transferred from a prior system to LEADER in 2003, and timing differences in recording transactions in LEADER and eCAPS. In addition, at the time of our review, DPSS had a backlog of 45,000 food stamp and 18,000 CalWORKs overpayment records that the Department needed to research to determine the appropriate disposition of the collections. DPSS is unable to reconcile the variances between the eCAPS and LEADER balances without clearing this backlog. DPSS management indicated that, as of June 30, 2013, the Department had cleared 69% of the collection records outstanding in 2009, and that the current variances were $360,000 for food stamps and $514,000 for CalWORKs.

We noted that some of the outstanding collection records date back to 1999, before DPSS implemented LEADER, and DPSS may not have records to reconcile the trust fund balances in all cases. DPSS needs to research outstanding collection records, reconcile the trust fund balances in eCAPS to LEADER, and determine the reason(s) and amount of any variances. DPSS should also ensure that future collections are credited to participant accounts timely, and that LEADER is reconciled to eCAPS monthly.

Recommendations

Department of Public Social Services management:

1. **Research all outstanding collection records in the Los Angeles Eligibility Automated Determination Evaluation Reporting system, credit participant accounts as appropriate, and ensure future collections are credited to participant accounts timely.**

2. **Reconcile eCAPS trust fund balances to the Los Angeles Eligibility Automated Determination Evaluation Reporting system records, determine the reason(s) and amount of any variances, and reconcile the trust funds monthly.**

Interim Assistance Recovery (IAR) Trust Fund

Some General Relief (GR) recipients' benefits end when they are approved for Supplemental Security Income (SSI). The County is entitled to recover GR benefits paid from the time the participant was eligible for SSI and when the benefits were approved. DPSS holds SSI payments in the Interim Assistance Recovery (IAR) trust fund, calculates how much the County can recover, pays the participant the remainder (if any), and transfers the amount recovered to the County's general fund. As of June 30, 2012, the IAR trust fund had a balance of approximately $1.2 million.

DPSS keeps a detailed ledger of IAR trust fund transactions, but does not reconcile the ledger to eCAPS. Instead, DPSS adjusts the prior month's eCAPS balance for deposits, withdrawals, and transfers, and compares that total with the eCAPS balance at month-end. Performing reconciliations in this manner can lead to undetected errors in the trust fund. During our review, we noted an unreconciled variance of $57,000 between DPSS' detailed subsidiary ledger and eCAPS.

Recommendation

3. **Department of Public Social Services management reconcile the Interim Assistance Recovery trust fund balance in eCAPS to the Department's detailed subsidiary records, and investigate and resolve any variances.**

Welfare Advance and Reimbursement Trust Funds

DPSS uses two non-cash trust funds to account for advances received or receivables due from the State for various welfare programs. As of June 30, 2012, the Welfare Advance trust fund had a balance of $527 million for advances received, that had been transferred to the County's general fund, but were not yet earned and recognized as revenue. The Welfare Reimbursement fund had a non-cash balance of $42.5 million, which represents amounts expended and recognized as revenue, but not yet received from the State.

DPSS maintains sub-accounts for each program to track transfers in and out of the trust funds. We reviewed a month of transactions in five sub-accounts, and noted that the transactions were supported by appropriate documentation and that DPSS recognized revenue timely.

We also noted that DPSS performed various reconciliations related to the funds. For example, DPSS reconciled welfare program expenditures recorded in eCAPS to program expenditures reported to the State, to ensure reported expenditures were accurate. However, DPSS' reconciliations did not show what the trust fund balances should be. In addition, DPSS did not document who prepared or approved the reconciliations, or the date the reconciliations were prepared/approved.

Recommendations

Department of Public Social Services management:

4. **Ensure trust fund reconciliations include a reconciliation of the total trust fund balance per the Department's subsidiary records to the trust fund balance in eCAPS.**

5. **Ensure that trust fund reconciliations are documented with the preparer and approver's signatures and the date reviewed/approved.**

Child Support Collection Overpayment/Repayment Trust Fund

Before July 1, 1998, DPSS processed welfare-related child support collections, and held the collections in the Child Support trust fund until staff determined how they should be distributed (i.e., paid to the State and DPSS to recoup public assistance payments, paid to the Department of Children and Family Services (DCFS) for foster care related expenses, or paid to parents). On July 1, 1998, Child Support Services Department (CSSD) took over this function. Since then, DPSS has used the Child Support trust fund primarily to hold DPSS' share of ongoing recoupments of public assistance payments until they are transferred monthly to the County's general fund.

As of June 30, 2012, the trust fund balance was $6.4 million, mostly from recoupments collected before July 1, 1998. In 2004, DPSS reviewed the trust fund, and concluded that $1.5 million was foster care money owed to DCFS, and $4.9 million was for welfare-related child support payments that should be refunded to the State. However, DPSS does not have supporting documentation to identify the cases associated with the trust fund balance. The Department has indicated that DCFS and the State will likely not accept the money without this documentation. After DPSS' 2004 review, the Department attempted to identify appropriate methods to disposition the funds. However, the issue has not yet been resolved.

DPSS did not reconcile their subsidiary records of child support collections and payments to the County's accounting records. As a result, DPSS was not aware of the accumulated trust fund balance until after they stopped processing child support recoupments. Although DPSS does not have records identifying the cases associated with the trust fund balance, DPSS has concluded that most of the trust fund balance consists of recoupments that are payable to DCFS or the State. In 2007, the Department reviewed a sample of 90 welfare-related child support collection cases in detail to determine if any amounts previously collected were owed to clients as of June 30, 1998, and found that no money was owed to clients for 89 of the 90 cases. However, DPSS found that $11,500 was owed to a custodial parent for one case, and subsequently paid the amount owed. It is unclear if this amount is representative of other amounts that may be owed. DPSS management indicated that it would not be feasible to perform a detailed review of all of the remaining cases to determine whether any other amounts may be owed to clients, due to the number of cases and the work involved to research each case.

Recommendation

6. **Department of Public Social Services management work with other departments, as needed, to disposition the unaccounted for balance of approximately $6.4 million in the Child Support Collection Overpayment/Repayment Trust Fund.**

Reconciliations

CFM Section 2.3.0 requires departments to maintain detailed ledgers and balances for each trust fund, and to reconcile these records to eCAPS monthly. The reconciliation must identify outstanding items, and departments must investigate and resolve all reconciling items promptly.

As noted earlier, DPSS has not been properly reconciling their subsidiary ledgers to trust fund balances in eCAPS. DPSS should revise their trust fund reconciliation procedures, train staff on the revised procedures, and monitor for compliance.

We also noted that DPSS is not timely in completing the reconciliations it does perform. For the three cash trust funds we reviewed, 13 (87%) of the 15 reconciliations were completed an average of 85 days after the month end. To ensure errors are detected and reconciling amounts are resolved timely, DPSS should complete reconciliations within 30 days of the month end.

Recommendations

Department of Public Social Services management:

7. **Revise the Department's trust fund reconciliation procedures to ensure staff properly reconcile trust fund subsidiary ledgers to trust fund balances in eCAPS, train staff on the revised procedures, and monitor for compliance.**

8. **Ensure staff complete trust fund reconciliations timely.**

Trust Fund Documentation

CFM Section 2.1.3 requires departments to maintain historical documentation of the purpose and authority of each trust fund, to ensure trust funds are used as intended. Many of DPSS' trust funds were established more than 20 years ago, and DPSS does not have the required documentation. While DPSS maintains a list of trust funds with a description of the fund purpose and approved use, the Department does not have a formal process for reviewing and approving changes to the purpose and description of each trust fund.

Recommendation

9. **Department of Public Social Services management develop a formal process for reviewing and approving changes to the purpose and description of each trust fund.**

Commitments and Accounts Payable

County departments establish encumbrances to reserve budgeted funds when goods and services are ordered. At the end of each fiscal year, encumbrances are carried forward to the next year as commitment encumbrances (commitments) if the goods and services were ordered, but were not received, by the end of the fiscal year.

Departments establish accounts payable for goods and services that were received, but were not paid for, by the end of the fiscal year. While accounts payable are automatically cancelled at the end of the subsequent year, commitments are carried forward to future years. Departments are supposed to review their commitments and accounts payable to ensure they are accurate, and cancel any commitments and accounts payable that are no longer needed. Outstanding commitments and accounts payable reduce the County's available fund balance.

Commitments

DPSS had approximately $4.9 million in commitments outstanding at the beginning of FY 2012-13.

We reviewed 15 commitments, totaling $355,000, and noted that seven (47%), totaling $178,000, should have been canceled. One commitment should have been canceled more than two years prior to our review.

We also reviewed 15 payments charged against other commitments, and noted that two (13%), totaling $47,000, were for goods or services that DPSS had received before the end of the prior fiscal year. DPSS should have established accounts payable, not commitments, for these items. Inappropriately recording commitments, instead of accounts payable, understates prior-year expenditures, and overstates subsequent year expenditures.

Accounts Payable

DPSS established approximately $22 million in accounts payable at the end of FY 2011-12. We reviewed 20 payments charged to accounts payable, and noted that three (15%) payments, totaling $22,000, were for goods and services received in the current fiscal year that should have been recorded as current year expenditures.

In addition to the 20 payments noted above, we reviewed all Stage 1 Child Care (S1CC) invoices for June 2008 and June 2009, to ensure DPSS appropriately established accounts payable at the fiscal year end. We noted that DPSS did not set up enough accounts payable, resulting in $3.1 million of FY 2007-08 S1CC expenditures being charged to FY 2008-09. DPSS indicated that they did not have sufficient appropriation to record the charges in FY 2007-08, and did not have enough time to request a budget adjustment. However, it appears that DPSS could have processed a budget adjustment in time to set up accounts payable for these invoices.

Recommendation

10. Department of Public Social Services management ensure staff establish and cancel accounts payable and commitments as required by the County Fiscal Manual, and monitor for compliance.

Revolving Funds

DPSS has three revolving funds totaling $85,000, including Cash Aid and petty cash funds with 61 sub-assignments at various district offices and the central cashier, and a Repatriate Fund. The Department's Central Cashier holds some funds in checking accounts, which are used to pay vendors and to replenish district office sub assignments.

CFM Section 1.6.6 requires departments to reevaluate a revolving fund assignment if it is not needed monthly. At the time of our review, DPSS' three revolving funds totaled $110,000. We noted that the Department's allocation for its Repatriate Fund was $30,000, but FY 2008-09 expenditures were only $5,100, and there were five months which had no fund activity. Subsequent to our review, DPSS management reduced the Repatriate Fund assignment by $25,000 to $5,000. DPSS management should periodically evaluate revolving fund usage, and adjust fund assignments accordingly.

We also noted the following areas where DPSS can enhance their controls over revolving funds:

- **Timeliness of bank reconciliations -** CFM Section 1.2.3 requires departments to reconcile bank statements timely so that reconciling items can be resolved within the next bank statement period. We reviewed 24 bank reconciliations, and noted that four (17%) were completed an average of 63 days after the period ended.

- **Marking petty cash supporting documents "paid" -** CFM Section 4.6.8 requires departments to mark documentation supporting petty cash expenditures "paid" to prevent subsequent reuse. We reviewed 14 petty cash expenditures and noted that eight (57%) supporting documents were not marked "paid". In addition, one expenditure was not supported by a receipt or invoice.

Recommendations

Department of Public Social Services management:

11. Periodically evaluate revolving fund usage, and adjust revolving fund assignments accordingly.

12. Ensure that revolving fund bank reconciliations are completed timely.

13. Ensure that petty cash expenditures are supported by appropriate documentation, and that the documents are marked "paid" to prevent reuse.

Cash Controls

CFM Section 1.1.4 requires departments to maintain adequate security over cash at all times. Access to cashiering areas, including cash registers, cash drawers, and safes, must be restricted to as few authorized individuals as necessary. We noted some instances where DPSS is not securing cash. At one district office, we observed that the safe containing Cash Aid and petty cash funds was left open throughout the workday, and the cashiers had unsupervised access. We also noted a DPSS field office where staff did not reconcile checks received through the mail to deposits. This could result in lost or stolen payments going undetected.

Recommendations

Department of Public Social Services management:

14. Maintain adequate security over cash by restricting access to cashiering areas to as few authorized individuals as necessary.

15. Ensure staff reconcile checks received through the mail to deposits.

County Internal Control Certification Program

The Auditor-Controller developed the Internal Control Certification Program (ICCP) to assist County departments in evaluating and improving controls over their fiscal operations. Departments must review and evaluate controls in key fiscal areas annually, and certify that proper controls are in place, or that action is being taken to correct any deficiencies or weaknesses noted.

Some of the issues we noted in DPSS' trust fund, revolving fund, commitment, and accounts payable operations should have been identified when DPSS completed their ICCP. While DPSS' ICCP did report some of the issues, such as bank reconciliations not being done timely, the Department's ICCP did not report some of the weaknesses or deficiencies we noted. DPSS management should ensure that the ICCP questionnaires are completed accurately, all internal control weaknesses are identified, and an improvement plan is developed to address each weakness.

Recommendation

16. Department of Public Social Services management ensure the Internal Control Certification Program is completed accurately, all internal control weaknesses are identified, and an improvement plan is developed to address each weakness.

County of Los Angeles
DEPARTMENT OF PUBLIC SOCIAL SERVICES

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December 9, 2013

TO: Wendy L. Watanabe
Auditor-Controller

FROM: Sheryl L. Spiller, Director Sheryl L. Spiller CPA)

SUBJECT: DPSS RESPONSE TO THE AUDITOR-CONTROLLER'S DRAFT REPORT REVIEW OF TRUST FUNDS, REVOLVING FUNDS, COMMITMENTS, AND ACCOUNTS PAYABLE

This is to provide you with the Department's response to the Trust Funds, Revolving Funds, Commitments, and Accounts Payable Draft Report. The review was initiated in April 2009 and the draft report was released September 2013. The review resulted in 16 recommendations.

DPSS agrees with the 16 recommendations and has proactively addressed them. To date, ten have been implemented; one is targeted for implementation by March 31, 2014, and five are targeted for implementation by June 30, 2014.

If you have any questions, please let me know or your staff may contact Andy Nguyen, Human Services Administrator III In-Charge, at (562) 908-5879.

SLS:jh

Enclosure

AUDITOR CONTROLLER'S COMPLIANCE REVIEW OF TRUST FUNDS, REVOLVING FUNDS, COMMITMENTS, AND ACCOUNTS PAYABLE

DEPARTMENT OF PUBLIC SOCIAL SERVICES RESPONSE TO RESULTS AND RECOMMENDATIONS

FOOD STAMP AND CALWORKS OVERPAYMENT RECOVERIES TRUST FUNDS

RESULTS

DPSS uses two trust funds to temporarily account for CalFresh (formerly known as Food Stamps) and California Work Opportunity and Responsibility to Kids (CalWORKs) overpayment collections. When a participant returns an overpayment, DPSS credits the participant's account in the Los Angeles Eligibility Automated Determination Evaluation and Reporting (LEADER) System, and deposits the collection into the trust fund(s). Each quarter, DPSS reports overpayment collections to the State. The State recovers food stamp overpayments by reducing the payments it makes to DPSS for future food stamp administration costs. DPSS then transfers the amount from the trust fund to the County's general fund. DPSS reimburses the State for CalWORKs overpayment collections by reducing its claims to the State for the program, and then transfers that amount to the County's general fund.

We noted that DPSS was not reconciling the detailed subsidiary records in LEADER to eCAPS. As a result, DPSS was not ensuring that the balance in eCAPS was accurate, and that all funds were properly accounted for.

We compared the eCAPS trust fund balances as of March 31, 2009, to LEADER reports, and noted variances of a $1.3 million in the food stamp overpayment trust fund, and $35,000 in the CalWORKs overpayment trust fund. DPSS indicated that the variances were likely due to a variety of factors, such as unreconciled variances dating from when the food stamp and CalWORKs overpayment collection data was transferred from a prior system to LEADER in 2003, and timing differences in recording transactions in LEADER and eCAPS. In addition, at the time of our review, DPSS had a backlog of 45,000 food stamp and 18,000 CalWORKs overpayment records that DPSS needed to research to determine the appropriate disposition of the collections. DPSS was unable to reconcile the variances between the eCAPS and LEADER balances without clearing this backlog. DPSS management indicated that, as of June 30, 2013, the Department had cleared 69% of the collection records outstanding in 2009 and that the current variances were $360,000 for food stamps and $514,000 for CalWORKs.

We noted that some of the outstanding collection records date back to 1999, before DPSS implemented LEADER, and DPSS may not have records to reconcile the trust fund balances in all cases. DPSS needs to research outstanding collection records, reconcile the trust fund balances in eCAPS to LEADER, and determine the reason(s) and amount of any variances. DPSS should also ensure that future collections are credited to participant accounts timely, and that LEADER is reconciled to eCAPS monthly.

RECOMMENDATIONS

1. Research all outstanding collection records in the LEADER system, credit participant accounts as appropriate, and ensure future collections are credited to participant accounts timely.

2. Reconcile eCAPS trust fund balances to LEADER records, determine the reason(s) and amount of any variances, and reconcile the trust funds monthly.

DPSS RESPONSE TO 1

As of July 31, 2013, the Department reviewed and cleared over 69% of the 2009 outstanding backlog of 45,000 CalFresh (formerly known as Food Stamps) and 18,000 CalWORKs overpayment collections records that had not been credited to participants' accounts. The Department will provide a status report on the remainder of the back-log by June 30, 2014. In addition, the Department restructured and consolidated its fiscal operations, and is currently implementing additional procedures and controls to manage the unposted payment activities to achieve timely posting to participants' accounts.

TARGET DATE: June 30, 2014

DPSS RESPONSE TO 2

The Department restructured and consolidated its fiscal operations, which were previously decentralized, and implemented controls to strengthen the reconciliation of the trust account activities, including the establishment of a special taskforce to validate and resolve the variance. Additionally, the Department is currently developing the LEADER Replacement System (LRS), and it is anticipated that enhanced features will be incorporated in the system's design to facilitate the reconciliation of the trust funds activities. FOD will provide a status report on the task force efforts by June 30, 2014.

TARGET DATE: June 30, 2014

INTERIM ASSISTANCE RECOVERY (IAR) TRUST FUND

RESULTS

Some General Relief (GR) recipients' benefits end when they are approved for Supplemental Security Income (SSI). The County is entitled to recover GR benefits paid from the time the participant was eligible for SSI and when the benefits were approved. DPSS holds SSI payments in the Interim Assistance Recovery (IAR) trust fund, calculates how much the County can recover, pays the participant the remainder (if any), and transfers the amount recovered to the County's general fund. As of June 30, 2012, the IAR trust fund had a balance of approximately $1.2 million.

DPSS keeps a detailed ledger of IAR trust fund transactions, but does not reconcile the ledger to eCAPS. Instead, DPSS adjusts the prior month's eCAPS balance for deposits, withdrawals, and transfers, and compares that total with the eCAPS balance at month-end. Performing reconciliations in this manner can lead to undetected errors in the trust fund. During our review, we noted an unreconciled variance of $57,000 between DPSS' detailed subsidiary ledger and eCAPS.

RECOMMENDATION

3. DPSS management reconcile the IAR, trust fund balance in eCAPS to the Department's detailed subsidiary records, and investigate and resolve any variances.

DPSS RESPONSE TO 3

In July 2010, DPSS resolved the IAR trust fund variance of $57,000 between eCAPS and the Department's detailed subsidiary records. The IAR subsidiary records are reviewed and reconciled against the eCAPS trust account balance on a monthly basis and any variance noted is investigated and resolved promptly.

COMPLETED: July 2010

WELFARE ADVANCE AND REIMBURSMENT TRUST FUNDS

RESULTS

DPSS uses two non-cash trust funds to account for advances received or receivables due from the State for various welfare programs. As of June 30, 2012, the Welfare Advance trust fund had a balance of $527 million for advances received, that had been transferred to the County's general fund, but were not yet earned and recognized as revenue. The Welfare Reimbursement fund had a non-cash balance of $42.5 million, which represents amounts expended and recognized as revenue, but not yet received from the State.

DPSS maintains sub-accounts for each program to track transfers in and out of the trust funds. We reviewed a month of transactions in five sub-accounts, and noted the transactions were supported by appropriate documentation and that DPSS recognized revenue timely.

We also noted that DPSS performed various reconciliations related to the funds. For example, DPSS reconciled welfare program expenditures recorded in eCAPS to program expenditures reported to the State, to ensure reported expenditures were accurate. However, DPSS' reconciliations did not show what the total trust fund balances should be. In addition, DPSS did not document who prepared or approved the reconciliations, or the date the reconciliations were prepared/approved.

RECOMMENDATIONS

4. Ensure trust fund reconciliations include a reconciliation of the total trust fund balance per the Department's subsidiary records to the trust fund balance in eCAPS.

5. Ensure that trust fund reconciliations are documented, with the preparer and approver's signatures and the date reviewed/approved.

DPSS RESPONSE TO 4
Procedures for completing reconciliations that tie the subsidiary records to the trust fund balances in eCAPS were implemented effective FY 2009-10. This procedure was reinforced during a meeting with staff in September 2009.

COMPLETED: September 2009

DPSS RESPONSE TO 5
DPSS took immediate action on this oversight when the A-C discussed this issue with staff during the audit in September 2009. The procedural oversight concerning the preparer and approval signatures and date prepared/approved was rectified through reinforcement during a meeting with staff in September 2009.

COMPLETED: September 2009

CHILD SUPPORT COLLECTION OVERPAYMENT/REPAYMENT TRUST FUND

RESULTS
Before July 1, 1998, DPSS processed welfare-related child support collections, and held the collections in the Child Support trust fund until staff determined how they should be distributed (i.e., paid to the State and DPSS to recoup public assistance payments, paid to the Department of Children and Family Services (DCFS) for foster care related expenses, or paid to parents). On July 1, 1998, Child Support Services Department (CSSD) took over this function. Since then, DPSS has used the Child Support trust fund primarily to hold DPSS' share of ongoing recoupments of public assistance payments until they are transferred monthly to the County's general fund.

As of June 30, 2012, the trust fund balance was $6.4 million, mostly from recoupments collected before July 1, 1998. In 2004, DPSS reviewed the trust fund, and concluded that $1.5 million was foster care money owed to DCFS, and $4.9 million was for welfare-related child support payments that should be refunded to the State. However, DPSS does not have supporting documentation to identify the cases associated with the remaining fund balance. The Department has indicated that DCFS and the State will likely not take the money without this documentation. After DPSS' 2004 review, the Department attempted to identify appropriate methods to disposition the funds. However, the issue has not yet been resolved.

DPSS did not reconcile their subsidiary records of child support collections and payments to the County's accounting records. As a result, DPSS was not aware of the accumulated trust fund balance until after they stopped processing child support recoupments. Although DPSS does not have records identifying the cases associated with the trust fund balance, DPSS has concluded that most of the trust fund balance consists of recoupments that are payable to DCFS or the State. In 2007, the Department reviewed a sample of 90 welfare-related child support collection cases in detail to determine if any amounts previously collected were owed to clients as of June 30, 1998, and found that no money was owed to clients for 89 of the 90 cases. However, DPSS found that $11,500 was owed to a custodial parent for one case, and subsequently paid the amount owed. It is unclear if this amount is representative of other amounts that may be owed. DPSS management indicated that it would not be feasible to perform a detailed review of all of the remaining cases to determine whether any other amounts may be owed to clients, due to the number of cases and the work involved to research each case.

RECOMMENDATION

6. DPSS management work with other departments, as needed to disposition the unaccounted for balance of approximately $6.4 million in the Child Support Collection Overpayment/Repayment Trust Fund.

DPSS RESPONSE TO 6

The Department engaged County Counsel and the CEO for guidance on the appropriate disposition of these funds and will continue to work with them to reach a final resolution. DPSS will follow-up with the CEO and County Counsel and provide a status update by June 30, 2014.

TARGET DATE: June 30, 2014

RECONCILIATIONS

RESULTS

County Fiscal Manual (CFM) Section 2.3.0 requires departments to maintain detailed ledgers and balances for each trust fund, and to reconcile these records to eCAPS monthly. The reconciliation must identify outstanding items, and departments must investigate and resolve all reconciling items promptly.

As noted earlier, DPSS has not been properly reconciling their trust fund balances to eCAPS. DPSS should revise their trust fund reconciliation procedures, train staff on the revised procedures, and monitor for compliance.

We also noted that DPSS does not complete timely the reconciliations it does perform. For the three cash trust funds we reviewed, 13 (87%) of 15 reconciliations were completed an average of 85 days after the month end. To ensure errors are detected and reconciling amounts are resolved timely, DPSS should complete reconciliations within 30 days of the month end.

RECOMMENDATIONS

7. Revise the Department's trust fund reconciliation procedures, train staff on the revised procedures, and monitor for compliance.

8. Ensure staff complete trust fund reconciliations timely.

DPSS RESPONSE TO 7

DPSS management is currently revising the Department's reconciliation procedures, training staff, and monitoring the reconciliation process for compliance.

TARGET DATE: June 30, 2014

DPSS RESPONSE TO 8

In July 2009, DPSS implemented procedures to track timely submission of monthly trust fund activity reports from responsible account managers. A detailed log is maintained to identify the date reports are received and when reminder notifications are sent to the fund managers. Additionally, as part of the revisions to the reconciliation procedures mentioned in Recommendation 7, the Department will assess the most feasible time frame for the completion of various monthly reconciliations based on business needs, operating constraints and data availability. A status report will be provided by June 30, 2014.

Target Date: June 30, 2014

TRUST FUND DOCUMENTATION

RESULTS

CFM Section 2.1.3 requires departments to maintain historical documentation of the purpose and authority of each trust fund, to ensure trust funds are used as intended. Many of DPSS' trust funds were established more than 20 years ago, and DPSS does not have the required documentation. While DPSS maintains a list of trust funds with a description of the fund purpose and approved use, the Department does not have a formal process for reviewing and approving changes to the purpose and description of each trust fund.

RECOMMENDATION

9. DPSS management develop a formal process for reviewing and approving changes to the purpose and description of each trust fund.

DPSS RESPONSE TO 9

The Department has been actively maintaining a matrix on trust funds' purposes and authority prior to this review. The matrix is maintained, updated and monitored by the current responsible fiscal manager. The Department will further strengthen its current process by March 31, 2014, by developing written policies for reviewing and approving changes to the purpose and description of each trust fund.

TARGET DATE: March 31, 2014

COMMITMENTS AND ACCOUNTS PAYABLE

RESULTS

County departments establish encumbrances to reserve budgeted funds when goods and services are ordered. At the end of each fiscal year, encumbrances are carried forward to the next year as commitment encumbrances (commitments) if the goods and services were ordered, but were not received, by the end of the fiscal year.

Departments establish accounts payable for goods and services that were received, but were not paid for, by end of the fiscal year. While accounts payable are automatically canceled at the end of the subsequent year, commitments are carried forward to future years. Departments are supposed to review their commitments and accounts payables to ensure they are accurate, and cancel any commitments and accounts payable that are no longer needed. Outstanding commitments and accounts payable reduce the County's available fund balance.

Commitments

DPSS had approximately $4.9 million in commitments outstanding at the beginning of FY 2012-13.

We reviewed 15 commitments, totaling $355,000, and noted that seven (47%), totaling $178,000, should have been canceled. One commitment should have been canceled more than two years prior to our review.

We also reviewed 15 payments charged against other commitments, and noted two (13%), totaling $47,000, were for goods or services that DPSS had received before the end of the prior fiscal year. DPSS should have established accounts payable, not commitments, for these items. Inappropriately recording commitments, instead of accounts payable, understates prior-year expenditures, and overstates subsequent year expenditures.

Accounts Payable

DPSS established approximately $22 million in accounts payable at the end of FY 2011-12.

We reviewed 20 payments charged to accounts payable, and noted that three (15%) payments, totaling $22,000, were for goods and services received in the current fiscal year that should have been recorded as current year expenditures.

In addition to the 20 payments noted above, we reviewed all Stage 1 Child Care (S1CC) invoices for June 2008 and 2009, to ensure DPSS appropriately established accounts payable at the fiscal year end. We noted that DPSS did not set up enough accounts payable, resulting in $3.1 million of FY 2007-08 S1CC expenditures being charged to FY 2008-09. DPSS indicated they did not have sufficient appropriation to record the charges in 2007-08, and did not have enough time to request a budget adjustment. However, it appears that DPSS could have processed a budget adjustment in time to set up accounts payable for these invoices.

RECOMMENDATION

10. DPSS Management ensure staff establish and cancel accounts payable and commitments as required by the County Fiscal Manual, and monitor for compliance.

DPSS RESPONSE TO 10
Since the completion of the audit field work in FY 2010-11, the Accounts Payable staff was instructed on the proper procedures of establishing and cancelling commitments and accounts payables, in accordance with the CFM and A-C year-end closing instructions. This process takes place annually, prior to year-end closing.

COMPLETED: July 2010

REVOLVING FUNDS

RESULTS
DPSS has three revolving funds totaling $85,000, including Cash Aid and petty cash funds with 61 sub-assignments at various district offices and the central cashier, and a Repatriate Fund. The Department's Central Cashier holds some funds in checking accounts, which are used to pay vendors and to replenish district office sub assignments.

CFM Section 1.6.6 requires departments to reevaluate a revolving fund assignment if it is not needed monthly. At the time of our review, DPSS' three revolving funds totaled $110,000. We noted that the Department's allocation for its Repatriate Fund was $30,000, but FY 2008-09 expenditures were only $5,100, and there were five months which had no fund activity. Subsequent to our review, DPSS management reduced the Repatriate Fund assignment by $25,000 to $5,000. DPSS management should periodically evaluate revolving fund usage, and adjust fund assignments accordingly.

We also noted the following areas where DPSS can enhance their controls over revolving funds:

- **Timeliness of bank reconciliations** - CFM Section 1.2.3 requires departments to reconcile bank statements timely, so that reconciling items can be resolved within the next bank statement period. We reviewed 24 bank reconciliations, and noted that four (17%) were completed an average of 63 days after the period ended.

- **Marking petty cash supporting documents "paid"** - CFM Section 4.6.8 requires departments to mark documentation supporting petty cash expenditures "paid" to prevent subsequent reuse. We reviewed 14 petty cash expenditures and noted that eight (57%) supporting documents were not marked "paid". In addition, one expenditure was not supported by a receipt or invoice.

RECOMMENDATIONS

11. Periodically evaluate revolving fund usage, and adjust revolving fund assignments accordingly.

12. Ensure that revolving fund bank reconciliations are completed timely.

13. Ensure that petty cash expenditures are supported by appropriate documentation, and that the documents are marked "paid" to prevent reuse.

DPSS RESPONSE TO 11
In August 2009, DPSS reevaluated the revolving fund usage, which resulted in a reallocation of funds based on current usage. Additional reviews were conducted and in February 2011 DPSS once again reduced the revolving fund by $25,000 based on usage. DPSS will continue to periodically evaluate revolving funds usage and make the appropriate adjustments as needed.

COMPLETED: August 2009

DPSS RESPONSE TO 12
Effective FY 2009-10, DPSS implemented additional controls to closely track the timeliness of the bank reconciliations. The Fiscal Operations Division maintains bank reconciliation logs to document the reconciliation activities and receipt of supporting documents from the bank and other responsible fiscal units. These control procedures were reinforced during a meeting with staff in September 2010.

COMPLETED: September 2010

DPSS RESPONSE TO 13
In September 2010, the Department implemented changes to ensure that all petty cash expenditure documents are stamped "paid" as soon as they are processed. These procedures are reinforced on an ongoing basis in the course of routine supervisory review.

COMPLETED: September 2010

CASH CONTROLS

RESULTS
CFM Section 1.1.4 requires departments to maintain adequate security over cash at all times. Access to cashiering areas, including cash registers, cash drawers, and safes, must be restricted to as few authorized individuals as necessary. We noted some instances where DPSS is not securing cash. At one district office, we observed that the safe containing Cash Aid and petty cash funds was left open throughout the workday, and the cashiers had unsupervised access. We also noted a DPSS field office where staff did not reconcile checks received through the mail to deposits. This could result in lost or stolen mail payments going undetected.

RECOMMENDATIONS

14. Maintain adequate security over cash by restricting access to cashiering areas to as few authorized individuals as necessary.

15. Ensure staff reconciles checks received through the mail to deposits.

DPSS RESPONSE TO 14
The Department has reviewed the procedures regarding security over cash and maintaining restricted access to the cashiering operation. These procedures were reinforced during a meeting with cashiering staff in October 2009. Follow up contacts were made with line operations cashiering staff at the districts and verified that staff continue to adhere to the CFM procedures in maintaining a locked safe and restricted work area. In addition, these procedures are included in the annual cashiering training and are verified for compliance during surprise cash counts conducted by the Department's internal auditors.

COMPLETED: October 2009

DPSS RESPONSE TO 15
DPSS conducts biannual training to reinforce the policies and procedures to staff regarding bank deposit reconciliations. DPSS is in compliance with the CFM.

COMPLETED: October 2009

COUNTY INTERNAL CONTROL CERTIFICATIONPROGRAM

RESULTS
The Auditor-Controller developed the Internal Control Certification Program (ICCP) to assist County departments in evaluating and improving controls over their fiscal operations. Departments must review and evaluate controls in key fiscal areas annually, and certify that proper controls are in place, or that action is being taken to correct any deficiencies or weaknesses noted.

Some of the issues we noted in DPSS' trust fund, revolving fund, commitment, and accounts payable operations should have been identified when DPSS completed their ICCP. While DPSS' ICCP did report some of the issues, such as bank reconciliations not being done timely, the Department's ICCP did not report some of the weaknesses or deficiencies we noted. DPSS management should ensure that the ICCP questionnaires are completed accurately, all internal control weaknesses are identified, and an improvement plan is developed to address each weakness.

RECOMMENDATIONS

16. DPSS management ensures the ICCP is completed accurately, all internal control weaknesses are identified, and an improvement plan is developed to address each weakness.

DPSS RESPONSE TO 16

The Department has implemented corrective steps to ensure accurate completion of the ICCP, identification of all internal control weaknesses and implementation of corresponding improvement plans:

- More in-depth evaluation of DPSS offices' internal controls have resulted in the identification and correction of control deficiencies, which the Department has included in its ICCP reports to the Auditor-Controller.

- ICCP trainings were conducted by DPSS' Fiscal Compliance group for 676 managers and essential staff in 2011. The trainings educated the employees about the ICCP evaluation process, the managers and supervisors' responsibility to identify and report internal control weaknesses in key fiscal areas of operations, and implement necessary improvement plans. In addition, the Department has included ICCP as one of the major topics in the training curriculum for the ongoing Human Resources Symposium trainings for its managers.

COMPLETED: October 2011